


SHEPP

SASKATCHEWAN HEALTHCARE
EMPLOYEES' PENSION PLAN

What's inside:

SHEPP

SASKATCHEWAN HEALTHCARE EMPLOYEES' PENSION PLAN

Chair
Marg Romanow

Vice-Chair
Jim Tomkins

Message from the Chair and Vice-Chair

We are pleased to present you with the first *Annual Report* of the Saskatchewan Healthcare Employees' Pension Plan.

2003 was an exciting year for SHEPP, as it successfully completed the transition to joint trusteeship. The change in governance followed the signing of an *Agreement and Declaration of Trust* by SAHO and six healthcare unions – CUPE, SEIU, SUN, HSAS, SGEU, and RWDSU – as of December 31, 2002.

Under the Agreement, our joint board of trustees was created to administer the Plan. With four employee and four employer trustees appointed to the Board, this significant milestone created a partnership that will see employers and plan members work together to provide a secure and stable pension plan for Saskatchewan healthcare workers.

This report tells you about our achievements during the year, as well as some of the challenges we faced.

Strong and Effective Management. Following a thorough search, Garry Tramer was appointed to manage SHEPP's day-to-day operations and investment activities. With over 15 years' experience in pension management, Garry brings the depth of knowledge and leadership qualities SHEPP needs to carry it into the future. Under his very capable leadership, SHEPP continued to operate smoothly during the transition to joint trusteeship.

Investment Success. In 2003, we saw the markets finally begin to recover from their worst downturn in 70 years. That recovery led to an overall growth of $260.9 million in the fund, led by $181.1 million in capital gains.

This growth meant the fund achieved a 13.9% rate of return, missing its benchmark by only 0.3%. During the last four years, SHEPP's annual rate of return has averaged 4.9%, beating its average benchmark of 3.5%.

At the end of 2003, SHEPP had almost $2 billion in assets, up from $1.7 billion in 2002.

Managing the Plan's Funding. Although the fund's investment return was good news, it followed two consecutive years of negative returns. These returns, together with changes in demographics, salary increases and declining interest rates, created an unfunded liability at the end of 2002.

In simple terms, an unfunded liability occurs when total liabilities exceed total assets. At the end of 2002, SHEPP's actuarial liabilities exceeded its actuarial assets by $74 million.

SHEPP is legally required to amortize unfunded liabilities over 15 years. To do this, and ensure that SHEPP remains a fully funded plan, the Board approved the actuary's recommendation to increase contribution rates at the beginning of 2004.

Effective January 1, 2004, the contribution rate for members rose to 5.85% of pensionable earnings up to the year's maximum pensionable earnings (YMPE), and 7.35% above. The previous rate was 4.5% of pensionable earnings up to the YMPE, and 6% above. Since employers contribute 112% of member contributions, employers also saw their contributions rise.

Even with the increase, our rates continue to remain low in comparison to other plans with similar benefits.

Looking Forward. As members of the first SHEPP Board of Trustees, our objectives are clear: to administer the plan and fund, and to provide and safeguard the pensions promised to plan members.

Our focus now and into the future is to strengthen the total fund and ensure that SHEPP continues to be a reliable and secure source of retirement income for its members. We will continue to monitor the markets and our investment returns carefully, and respond appropriately.

Acknowledgments. We would like to thank our Board colleagues, general manager and employees for their hard work during the year. Their commitment and dedication greatly contributed to our success.

Our plan members and participating employers also deserve our thanks. Your support and ongoing commitment to SHEPP is appreciated. On behalf of everyone at SHEPP, we look forward to serving you in the future.

Marg Romanow
Chair

Jim Tomkins
Vice-Chair

General Manager
Garry Tramer

Message from the General Manager

In 2003, our goals were to ensure the smooth transition to joint trusteeship, and to continue to deliver the highest level of service to plan members and employers.

To this end, we:

- hired a dedicated and skilled team of employees to deliver programs and services.
- developed an innovative website that members and employers can use to access information and services electronically. The site – www.shepp.ca – was successfully launched in March 2004.
- laid the groundwork for a new administration system that will enable SHEPP to enhance its services to members and employers.

These initiatives provide SHEPP with a leading edge infrastructure from which to deliver value added services in the future. For example, our plans to expand our online services will enable members to view and update their personal information, and include an interactive pension calculator.

Throughout 2003, we continued to serve our large and diverse membership. This included responding to the day-to-day requests for information and services, as well as processing more than 4,500 benefits, estimates, and prior service cost calculations. We also introduced a number of new initiatives in 2003, which are described for you later in this report.

Within SHEPP, we strengthened our commitment to offer a dynamic and competitive workplace to our employees. Our efforts paid off. We witnessed a reduction in employee turnover, which translated into lower recruitment and training costs. Moreover, the loyalty and dedication with which our employees serve contributed to our success.

In the months and years ahead, you will find us working more closely with members and employers to better understand their service needs and how we can best deliver them.

If you have suggestions on how we can better serve you, please call, write us or visit our office in Regina. We would like to hear from you.

Garry Tramer
General Manager

SHEPP Profile

The Saskatchewan Healthcare Employees' Pension Plan (SHEPP) is one of the largest pension plans in Saskatchewan.

With almost $2 billion in assets, the plan proudly serves more than 29,000 members, 7,000 retired members, 1,100 deferred members and 78 healthcare employers.

SHEPP is a defined benefit pension plan. Eligible members receive a pension based on their contributory earnings and years of participation, or 'credited service.' Plan highlights include:

- lifetime pensions for eligible members
- early retirement benefits
- termination benefits
- death benefits
- portability and buyback provisions
- adhoc cost of living adjustments.

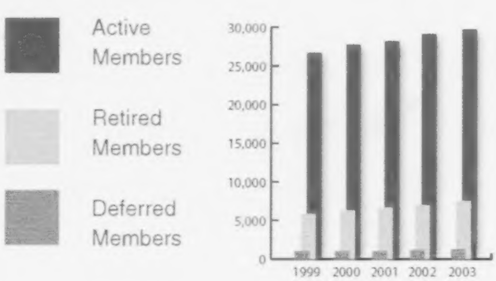
The SHEPP Board of Trustees is the trustee and administrator of the plan and fund. The Board includes four employee representatives and four employer representatives.

Under the oversight of the Board, SHEPP's General Manager and 13 employees carry out the day to day operations of the plan.

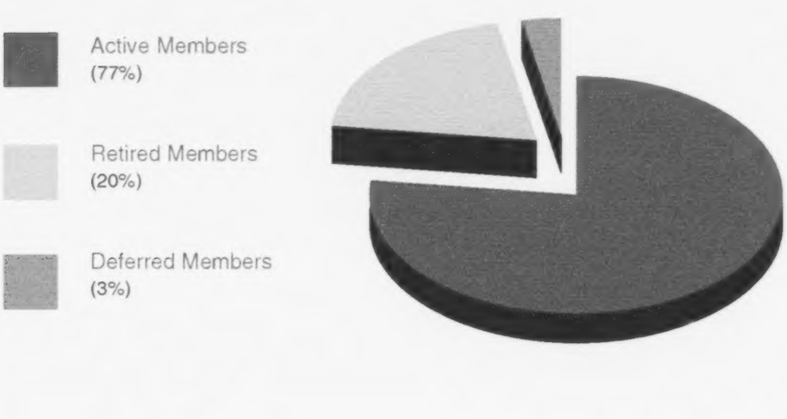
2003

Ranked 64th largest in Benefits Canada magazine's "Top 100 Pension Funds" list.

Our Numbers Keep Growing



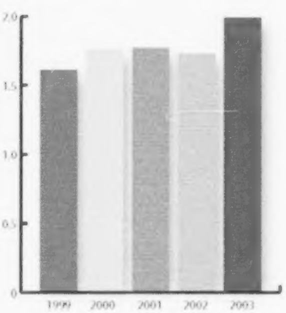
Our Membership



Financial Highlights

Net assets available for benefits increased by 15% to almost $2 billion in 2003.

Net Assets
$ (billions)



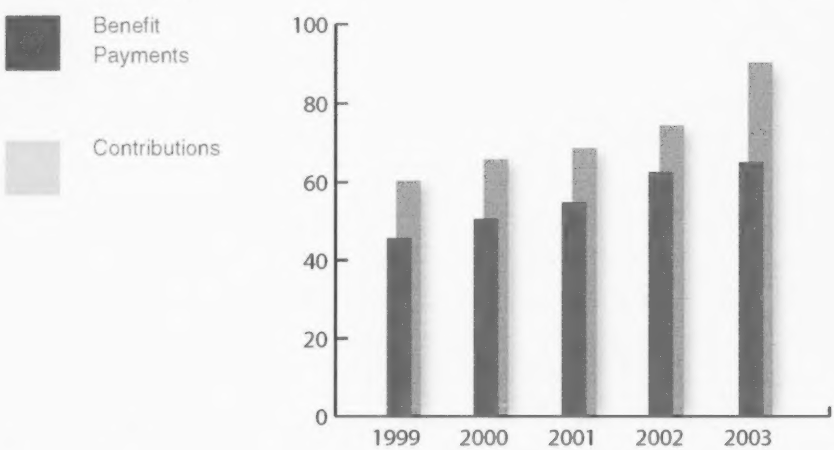
Contributions grew to $90 million in 2003, a 22% increase over the previous year.

Net Assets Available for Benefits

$ (millions)		2003	2002
Net assets available for benefits at the start of the year		1,725	1,765
Plus:	Contributions	90	74
	Investment Income	61	67
Less:	Benefits	(65)	(62)
	Expenses	(6)	(5)
Unrealized gains (losses)		181	(114)
Net assets available for benefits at the end of year		1,986	1,725

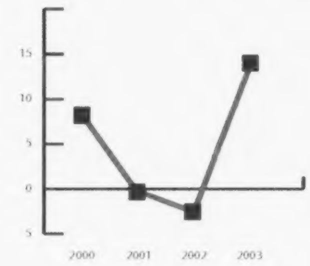
Benefits and Contributions

$ (millions)



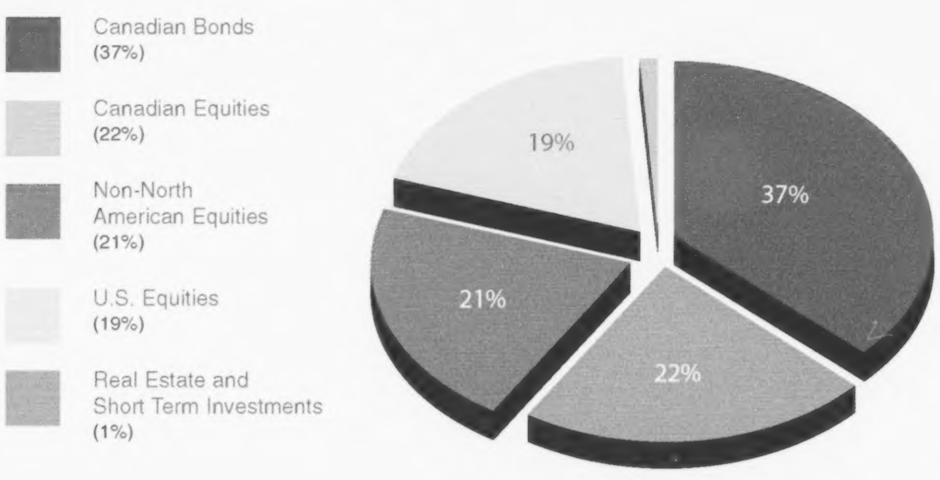
Return on Investment (%)	2003	2002
Annual return	13.9	(2.6)
Benchmark	14.2	(4.9)
Four year annualized return	4.7	4.7
Four year benchmark	3.2	3.1

Historical Annual Return
(%)

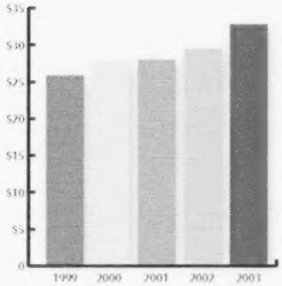


SHEPP's target asset mix is about 60% equities and 40% fixed-income.

Asset Mix
(at December 31, 2003)



Administration Cost
Per Member
(excluding investment costs)
(in dollars)



Administration Expenses

$ (thousands)	2003	2002
Salaries and benefits	673	532
Custodial and banking fees	351	361
Premises and equipment	122	80
Communications	37	66
Travel	38	32
Education and development	33	6
Other	6	11
Total	1,260	1,088

Investment Costs

$ (thousands)	2003	2002
External investment management fees	3,885	3,351
External investment consulting fees	45	44
Total	3,930	3,395

Administration Report

Total administrative and custodial expenses increased to $1.3 million in 2003, an increase of 15.8% over the previous year. The reason for the growth is two-fold. First, there were a number of one-time costs to effect the change in governance to joint trusteeship. Second, SHEPP laid the groundwork for several new initiatives that reflect our commitment to improve the way we deliver services:

Pension administration system. An investment in a new pension administration system will enable SHEPP to integrate its systems and take advantage of new technologies. This means SHEPP has a firm foundation on which to deliver enhanced member and employer services in the future.

Website. SHEPP began work on a website designed to provide members and employers with online information and services. The site – www.shepp.ca – features frequently asked questions, forms and links to other sites. More personalized and interactive features are planned for the future.

Records management process. Like many pension plans, SHEPP relied on social insurance numbers (SIN) as a unique identifier to manage members' records. With concern over the use of SIN numbers growing, SHEPP began the process of phasing out SIN numbers and replacing them with a new member identifier.

Although the initial cost for these initiatives was high, over the long term the investment is worth it. The advanced technology used by the new administration system and the SHEPP website, for example, will enable employers from all corners of the province to access information and services electronically. This not only results in more timely and efficient service for members and employers, but is more cost-effective for SHEPP.

Member Services. SHEPP provides a variety of services to plan members. Chief among those are the personalized statements mailed to members in June of each year. In 2003, statements were distributed to more than 29,000 members.

The chart below shows a breakdown of other SHEPP services:

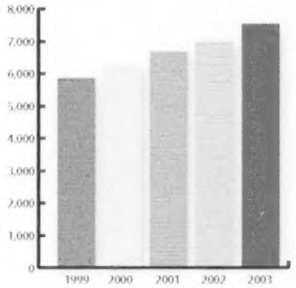
Number processed in 2003	Services
6,500	Telephone inquiries
2,500	Pension estimates
1,080	Benefits processed
1,000	Prior service cost calculations
800	Letter, fax and email inquiries
600	Statements of pension value provided to members on termination, death and relationship breakdown
150	Personal interviews
35	Pension presentations held throughout Saskatchewan communities

Did You Know?

The average plan member earns about $32,000 a year, and has 9.9 years of credited service. By retirement, the average plan member has 20.6 years of credited service.

SHEPP's administrative costs per member are competitive with other pension plans in Saskatchewan and across Canada.

Retired Members



Retired Member Services. A total of 7,532 retired members received accurate and timely pension payments in 2003, up 7% from the previous year. The total pension payroll grew by 8% to just over $54 million in 2003.

Retired members who received a pension for the entire 2002 year received a 1.8% ad hoc cost of living adjustment (COLA) on January 1, 2003. The COLA was based on 80% of the increase in the Consumer Price Index (Canada) for the 12-month period ending September 30 of the previous year.

New Initiatives. A number of new initiatives were introduced in 2003:

- SHEPP produced a new plan booklet using a friendlier format to help members understand the key features of their pension plan.
- Members who attended a SHEPP presentation received personal estimates of their pensions at the session.
- SHEPP reviewed the nature and extent of the information it collects to administer benefits and deliver services, and introduced new security measures to protect members' privacy.
- SHEPP developed systems in conjunction with its new administration system that will help employers streamline their administrative processes.

Fund Performance

SHEPP's assets are invested in accordance with the Board of Trustees' investment philosophy and objectives, which are set out in its Statement of Investment Policies and Procedures.

The Board's goal is to ensure there is enough money available to pay the benefits promised under the plan. Its investment philosophy is one of prudence, with a view to earning the best possible returns within an acceptable level of risk.

The investment objectives are to outperform the benchmark set for the total fund and for each asset class.

The Board's investment managers are selected on the basis of their solid track records, stable infrastructures and financial reputations as successful and responsible investors.

Investments by Asset Class (%)		
	2003	2002
Equities		
Canadian	21.5	22.9
U.S.	19.1	16.5
Non-North American	20.8	14.2
Real Estate	0.2	0.4
Fixed Income		
Bonds	37.3	42.6
Short-Term Investments	1.1	3.4
Total	100	100

Market Overview. The recovery in the capital markets in 2003 meant many pension plans were able to make up some of the ground lost during the previous two years. Market volatility was still above average though, with negative equity market returns and weak bond results in the first few months of 2003. The poor start was offset by more favourable returns in the next three quarters, and the fourth quarter in particular.

The Canadian equity markets celebrated double-digit gains in 2003, following two years of losses. U.S. and non-North American equity markets were also strong. Fixed income market returns were positive, although modest compared to the previous two years.

SHEPP's Investment Performance. SHEPP's performance is measured by comparing our returns against composite market benchmarks. The benchmarks reflect the performance of the markets in which the fund is invested.

In 2003 the fund achieved a 13.9% rate of return, which was slightly below the benchmark by 0.3%. The underperformance is due to the Canadian equity portfolio, which did not fully keep up to market indices.

Over the long term, the fund has a solid track record. On a four-year basis the rate of return was 4.7%, well above the benchmark's return of 3.2%. The 1.5% in added value came from the Canadian and non-North American equities, and the bond portfolio. In the last 10 years, the rate of return was 8.7% per year compared to the benchmark of 8.3%. In dollar terms, this means the additional return above the benchmark added nearly $87 million to the fund's value over 10 years.

On a rolling four-year basis, the fund outperformed the benchmark in each of the last four periods.

Four-Year Annualized Return (%)

	2003	2002	2001	2000
Total Fund	4.7%	4.7%	7.7%	11%
Benchmark	3.2%	3.1%	6.6%	10.5%

Managing the Fund. Investing SHEPP's assets carefully, prudently and with the utmost vigilance is one of the Board's most important jobs. At least annually, the Board of Trustees reviews investment policies and fund managers. It monitors investment returns regularly and responds appropriately.

The Board also regularly reviews the portfolio structure to ensure the fund maintains the right balance between striving for incremental returns and managing the costs associated with an almost $2 billion pension fund.

In 2003, the Board implemented a policy change to the U.S. equity portfolio by hiring an active manager with a strong track record of adding value. For a number of years, this portfolio has been managed in a "passive" manner designed to track the major market indices closely. While this approach is still key to the U.S. equity strategy, the policy change is designed to enhance the fund's expected returns in small and mid capitalization U.S. equities.

Looking forward, the Board will be watching the markets carefully. At the same time, it will undertake a comprehensive review of its investment-related priorities to ensure the fund's history of long-term success continues.

SHEPP Directory

2003 Board of Trustees

Chair
Marg Romanow
Saskatchewan Union of Nurses

Vice-Chair
Jim Tomkins
University of Regina

Andrew Huculak
Canadian Union of Public Employees

Muriel Morhart
Service Employees' International Union

Len Posyniak
Accenture Business Services

Kay Robertson
Lawyer

Tim Slattery
Health Sciences Association of Saskatchewan

Blake Walker
Alberta Local Authorities Pension Plan

Administration

General Manager
Garry Tramer

External Advisors and Agents

Actuary, *Aon Consulting*

Auditors, *Deloitte & Touche LLP*

Custodian, *CIBC Mellon Global Securities*

Legal Counsel, *Balfour Moss*

Payroll Agent, *CIBC Mellon Global Securities*

Pension Administration System Supply & Support, *James Evans & Associates*

Investment Consultant, *Hewitt Associates (James P. Marshall, Inc.)*

Performance Measurement Service, *API Asset Performance*

Finance and Administrative Services, *Saskatchewan Association of Health Organizations*

Investment Managers,
Greystone Managed Investments
TD Quantitative Capital
Montrusco Bolton
Bissett Investment Management
Barclays Global Investors
Phillips, Hager & North Investment Management
Franklin Templeton Investments
JP Morgan Fleming Asset Management
Penreal Capital Management
JL Kaplan & Associates

Financial Statements of

Saskatchewan Healthcare Employees' Pension Plan

December 31, 2003

Auditors' Report

To the Board of Trustees of
Saskatchewan Healthcare Employees' Pension Plan

We have audited the statement of net assets of Saskatchewan Healthcare Employees' Pension Plan as at December 31, 2003 and the statement of changes in net assets for the year then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Pension Plan as at December 31, 2003 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants

Regina, Saskatchewan
March 26, 2004

Saskatchewan Healthcare Employees' Pension Plan
Statement of Net Assets
As at December 31

		2003 (000's)		2002 (000's)
ASSETS				
Investments, at market value (Note 5)	$	**1,973,646**	$	1,718,638
Accrued interest receivable		**1,687**		1,325
Employees' contributions receivable		**3,303**		3,198
Employers' contributions receivable		**3,700**		3,582
Dividends receivable		**858**		639
Securities transactions receivable		**4,098**		-
Other receivables		**25**		34
Prepaid expenses		**74**		-
		1,987,391		1,727,416
LIABILITIES				
Accounts payable		**1,484**		1,321
Securities transactions payable		**-**		1,114
		1,484		2,435
NET ASSETS	$	**1,985,907**	$	1,724,981

See accompanying notes

On behalf of the Board:

Marg Romanow
Chair

Jim Tomkins
Vice-Chair

Saskatchewan Healthcare Employees' Pension Plan

Statement of Changes in Net Assets

For the Year Ended December 31

	2003 (000's)	2002 (000's)
INCREASE IN NET ASSETS		
Contributions - Employees	**$ 41,437**	$ 34,212
Contributions - Employers	**46,409**	38,318
Contributions - Other	**2,295**	1,942
Investment income (Note 6)	**42,163**	39,166
Net realized gain on investments	**18,920**	28,358
	151,224	141,996
DECREASE IN NET ASSETS		
Pension benefits	**54,227**	49,689
Terminations and death benefits	**10,625**	12,675
Realized loss on foreign exchange	**620**	2
	65,472	62,366
Expenses		
Administrative expenses (Note 7, Schedule 1)	**911**	727
Consulting fees	**290**	350
Custodian fees	**349**	361
Fund management fees (Schedule 2)	**3,930**	3,395
Investment counseling fees	**75**	88
Professional fees	**349**	238
	5,904	5,159
	71,376	67,525
UNREALIZED GAINS (LOSSES)		
Unrealized market value gain (loss)	**183,576**	(114,409)
Unrealized loss on foreign exchange	**(2,498)**	(4)
	181,078	(114,413)
NET INCREASE (DECREASE) IN NET ASSETS	**260,926**	(39,942)
NET ASSETS, BEGINNING OF YEAR	**1,724,981**	1,764,923
NET ASSETS, END OF YEAR	**$ 1,985,907**	$ 1,724,981

See accompanying notes

1. SASKATCHEWAN HEALTHCARE EMPLOYEES' PENSION PLAN

The Saskatchewan Healthcare Employees' Pension Plan (SHEPP) is a defined benefit pension plan that is registered under *The Pension Benefits Act, 1992* (Saskatchewan) and the *Income Tax Act* (Canada). The Plan was established pursuant to a Trust Agreement dated December 31, 2002 and is a continuation of the Saskatchewan Association of Health Organizations (SAHO) Retirement Plan which was established in 1962. SHEPP is administered by an independent board of eight trustees. Four trustees are appointed by SAHO and four trustees are appointed by the major healthcare unions. The Plan Manager and SHEPP staff are responsible for the day to day administration of the plan.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

Member agencies of Saskatchewan Association of Health Organizations (SAHO) are responsible for the accuracy and completeness of contributions remitted and the member payroll information on which benefit payments are determined for the Plan. Contributions to the Plan are made by both individual employees ("employees") and member organizations ("employers") in accordance with the funding requirements of the Plan.

3. DESCRIPTION OF PLAN

The following description of the Plan is a summary only. For more complete information reference should be made to the Plan text.

a) *Effective date*

The effective date of the Plan was March 1, 1962.

b) *Eligibility*

Permanent employees of all participating health-care organizations in the Province of Saskatchewan that are members of SAHO may participate, providing they are under the age of 64 at date of hire and enrollment.

Effective January 1, 1993, casual employees may participate providing the employee has worked at the organization for at least 24 continuous months and, in the two calendar years immediately prior to the employee's application to join the Plan, the employee completed 700 hours of employment in each year. Effective June 1, 1999, casual employees may participate providing the employee completed 780 or more hours of employment in the preceding year.

c) *Employee contributions*

Employees are required to contribute 4.5% of their pensionable earnings up to the Canada Pension Plan ("CPP") Year's Maximum Pensionable Earnings and 6.0% of any pensionable earnings in excess of the CPP Year's Maximum Pensionable Earnings.

Subsequent to the year-end, commencing January 1, 2004, employee contributions increased to 5.85% of their pensionable earnings up to the CPP Year's Maximum Pensionable Earnings and 7.35% of their pensionable earnings in excess of the CPP Year's Maximum Pensionable Earnings.

3. DESCRIPTION OF PLAN (continued)

c) Employee contributions (continued)

An employee who was employed by a participating organization prior to March 1, 1962, and who joined the Plan within 31 days of the employing organization's participation date, may elect to contribute additional amounts to the Plan in respect of the employee's pensionable service prior to March 1, 1962. These contributions are referred to as retroactive contributions.

An employee who is a member of the Plan may voluntarily elect to purchase eligible prior service. The employee is required to satisfy the full purchase cost. These contributions are referred to as additional purchased service contributions.

d) Employer contributions

Employers contribute at the ratio of 1.12 to 1 of employee contributions.

e) Amount of pension

The basic lifetime pension is equal to the sum of:

(i) 2% of an employee's highest average contributory earnings (HACE)[1], multiplied by years of credited service up to December 31, 1989, plus

(ii) 1.65% of an employee's highest average base contributory earnings (HABCE)[2] plus 2% of an employee's highest average excess contributory earnings (HAECE)[3], multiplied by years of credited service between January 1, 1990 and December 31, 2000, plus

(iii) 1.4% of an employee's highest average base contributory earnings (HABCE) plus 2% of an employee's highest average excess contributory earnings (HAECE), multiplied by years of credited service after January 1, 2001

f) Retirement dates

The normal retirement date of an employee is the first day of the month coincident with or next following the employee's 65th birthday.

An employee whose age plus credited service under the Plan is equal to or exceeds 80 years may retire without early retirement reduction.

Early retirement is allowed at any time after age 55 provided that the employee has completed 10 years of continuous service. In such a case the employee's pension will be reduced by the lesser of:

(i) 3% multiplied by the number of years, and portions thereof, that the employee is short of age 65, and

(ii) 3% multiplied by the number of years, and portions thereof, that the employee's age plus credited service is short of 80 years, and

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1 HACE – is the average of an employee's four highest years of contributory earnings.
2 HABCE – is the average of an employee's contributory earnings up to the Year's Maximum Pensionable Earnings during the five highest calendar years of contributory earnings.
3 HAECE – is the difference between HACE and HABCE.

3. DESCRIPTION OF PLAN (continued)

f) Retirement dates (continued)

(iii) the greater of:

(a) 3% multiplied by the number of years, and portions thereof, that the employee is short of age 62, and

(b) 3% multiplied by the number of years, and portions thereof, that the employee's credited service is short of 20 years.

With the employer's consent a member may delay retirement until December 1 of the year in which they attain age 69. In this event, pension accruals will continue in the normal manner.

g) Death in service

On the death of an employee before retirement, the employee's spouse receives the greater of:

(i) the commuted value of the employee's formula pension earned to date of death, in respect of all credited service, plus excess contributions, if any, and

(ii) the sum of:

(a) the commuted value of the employee's formula pension earned from January 1, 1992 to the date of the employee's death, plus excess contributions, if any, and

(b) twice the employee's required contributions, plus interest, plus the employee's additional purchased service contributions plus interest, with respect to pre-1992 service.

If the employee is not survived by a spouse, the death benefit is payable in a lump sum to the employee's designated beneficiary.

h) Normal form of pension

The normal form of pension provides for monthly payments for life, with a minimum of 60 monthly payments being guaranteed in any event. Optional forms of pension are available on an actuarial equivalent basis. If the retiring employee has a spouse, a joint life optional pension reduced by not more than 40% on an employee's death must be elected unless the spouse has waived this option.

i) Termination of employment

Benefit entitlement to employees who are terminated depends upon whether or not the employee is vested.

An employee is vested if on termination, the employee has:

- more than two years of credited service, or
- more than two years of continuous service.

3. DESCRIPTION OF PLAN (continued)

i) Termination of employment (continued)

A non-vested employee is entitled to a refund of his own required and additional purchased service contributions, plus interest as either:

- a taxable payment issued directly to the employee, or
- a tax exempt transfer directly to the employee's personal registered retirement savings plan or other qualifying vehicle.

A vested employee is entitled to a deferred pension payable the first month coincident with or next following the employee's 65th birthday. The employee's deferred pension will be calculated using the Plan's normal retirement pension calculation formula based upon the employee's credited service and highest average contributory earnings to the employee's date of termination.

However, a vested employee may elect to discharge his locked-in deferred pension and elect to transfer the present value of his locked-in deferred pension to his personal registered retirement savings plan providing the funds transferred are administered on a locked-in basis. The locked-in deferred pension may also be transferred to another member organization or another registered pension plan within specified time limits.

All above vested options include both the employee's contributions and the related employer value.

j) Disability benefit

Employees who become disabled and eligible for benefits under the SAHO Disability Income Plan or receive a waiver of premiums will continue to accrue service under the pension plan. Their pension at retirement will be based on all years of service including those on disability, and their best years' contributory earnings will be calculated assuming they had made contributions during disability based on their salary when the disability commenced.

k) Maximum employee cost

At least 50% of the cost of the benefit payable at retirement, or termination of employment when an employee is vested and locked-in, must be provided by employer contributions. Any "excess" employee contributions on termination or retirement are refundable to the employee.

l) Interest

For the purpose of calculating accumulated employee contributions, interest rates are applied in respect of required and retroactive contributions at the rates of interest determined by the Trustees from time to time, but in no event are lower than the minimum rate required by *The Pension Benefits Act, 1992* (Saskatchewan).

4. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles and include the following significant accounting policies:

a) *Basis of presentation*

These financial statements are prepared on a going concern basis in accordance with Canadian generally accepted accounting principles. They present the financial position of the Plan as a separate financial reporting entity independent of SAHO and Plan members.

b) *Revenue recognition*

Interest on bonds, debentures, mortgages, and short term investments is recognized as it accrues. Dividend income is recognized as of the date of record. Investment transactions are accounted for on the trade date. Realized gains and losses and unrealized market value gains and losses are determined by reference to the average cost of investments. The Plan follows the accrual method for the recording of income and expenses.

c) *Market value of investments*

Market values for bonds and equities are based on year-end market quotations. Unlisted bonds are recorded at values reflecting current market yields of similar debt obligations. Real estate funds are valued at market based on the most recent appraisal and earnings results.

d) *Fair value*

Accrued interest receivable, employees' contributions receivable, employers' contribution receivable, dividends receivable, securities transactions receivable, other receivables, accounts payable and securities transactions payable are all short term in nature, therefore their carrying value approximates fair value.

e) *Use of estimates*

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from those estimations.

f) *Foreign currencies*

Foreign currency transactions are translated into Canadian dollars using the transaction date exchange rate. Monetary assets and liabilities denominated in foreign currencies are adjusted to reflect exchange rates at the balance sheet date. Exchange gains or losses arising on the translation of monetary assets and liabilities or sale of investments are included in the statement of changes in net assets available for benefits in the year incurred.

g) *Income taxes*

The Plan is not subject to income tax since it is a Registered Pension Trust as defined by the *Income Tax Act* (Canada).

5. INVESTMENTS

The objective of the Plan is to maintain sufficient assets to discharge future pension obligations and to generate cash flow required for pension plan payments. The Plan holds a diversified portfolio including Canadian, US, and non-North American equities, bonds, real estate, and money market securities.

Several managers are employed by the Plan and are provided investment guidelines which, coupled with the overall investment policies, are designed to minimize risk, including interest rate, credit, and foreign currency risks. The Plan's investment guidelines also define minimum quality rating for investments and restrict the size of investment in any one issuer.

Interest rate risk

Interest rate risk refers to the adverse consequences of interest rate changes on the Plan's cash flows, financial position and income. This risk arises from differences in the timing and amount of cash flows related to the Plan's assets and liabilities. The value of some of the Plan's assets is affected by changes in nominal interest rates and equity markets.

Credit risk

Credit risk arises from the potential for issuers of securities to default on their contractual obligation to the Plan. The Plan limits the credit risk by dealing with issuers that are considered to be investment-grade quality. At December 31, 2003 the fund's maximum credit risk exposure relates to bonds, accrued income, and short term investments.

Foreign currency risk

Foreign currency exposure arises from the Plan's holdings of foreign equities and bonds.

Management of risk

To manage the above risks, the Board has adopted an Investment Policy whereby investments are distributed among several classes of assets to reduce investment volatility. The Plan's Investment Policy also defines minimum quality rating for investments and restricts the size of investment in any one issuer.

Bonds

Bonds are subject to a minimum quality standard of BBB or equivalent. However, BBB bonds may not be purchased if they comprise more than 10% of the book value of the total portfolio of any individual manager. Private bond issues may not comprise more than 5% of the book value of the bond portfolio unless they carry a rating of "A" or better.

Short term investments

Short term investments or money market securities are comprised of investments with less than one year to maturity. The Plan requires a minimum R-1 or equivalent rating.

Equities

Equities are generally restricted to common or preferred stocks that are publicly traded on a recognized stock exchange. No one holding of an individual stock may represent more than 10% of the market value of the equity portfolio at time of purchase and no one individual stock holding may represent more than 10% of the common and preferred stock of any corporation.

5. INVESTMENTS (continued)

Real estate funds

Investments in real estate are in pooled funds as the real estate portfolio must be diversified by property type, geographic location and investment size.

Foreign investments (000's)

Total foreign equities are not to exceed the foreign content limit under the *Income Tax Act* (Canada) which is 30% of book value. Plan investments denominated in foreign currencies had a book value of $507,985 representing 28.59% of the total portfolio. Foreign denominated investments were comprised of $502,858 U.S. common stocks and $5,127 cash equivalents.

Summary of Investment Holdings:

			2003		2002	
Type	**Years to Maturity**	**Credit Rating**	**Market Value (000's)**	**Market Yield (%)**	**Market Value (000's)**	**Market Yield (%)**
Federal		AAA				
	1 - 5		**$58,941**	**4.10 - 6.0**	$25,990	3.5 - 8.75
	6 - 10		**42,009**	**5.50 - 6.0**	30,658	5.25 - 6.0
	10+		**31,348**	**8.0 - 9.0**	43,301	4.25 - 8.0
			132,298		99,949	
Provincial		AA-A(med)				
	6 - 10		**44,522**	**5.38 - 6.5**	33,202	5.25 - 10.0
	10+		**38,811**	**6.0 - 8.25**	34,072	6.0 - 8.5
			83,333		67,274	
Corporate		AA(low) - A(low)				
Bond Trust			**133,349**	**4.4**	121,117	5.3
			133,349		121,117	
Bond index units			**388,074**		443,264	
Total bonds			**737,054**		731,604	
Equities						
Canadian			**659,471**		538,690	
Non-North American			**411,486**		244,856	
U.S.			**143,124**		135,990	
Total equities			**1,214,081**		919,536	
Other						
Short term investments - Canadian			**12,578**		60,070	
Real estate funds			**3,946**		7,166	
Cash position			**5,987**		262	
			$1,973,646		$1,718,638	

6. INVESTMENT INCOME

	2003 (000's)	2002 (000's)
Bond interest	$ 18,852	$ 20,091
Dividends	16,093	12,613
Gain on sale of bonds	6,486	5,796
Interest on short term investments, equities, and cash balances	624	592
Other income	108	74
	$ 42,163	$ 39,166

7. RELATED PARTY TRANSACTIONS

These financial statements include transactions for the Plan's administrative expenses paid by SAHO on the Plan's behalf. Amounts reimbursed to SAHO and the recorded amounts of these transactions are included in the financial statements and the table below. All transactions are recorded at the exchange amounts.

	2003 (000's)	2002 (000's)
Administrative expenses (Schedule 1)	$ 911	$ 727
Accounts payable	541	693

8. ACCRUED PENSION BENEFITS

The accrued pension benefits is the actuarial present value of the future expected pension benefit obligation to members as determined by the actuarial valuation done by Aon Consulting Inc., an independent actuary, at least every three years. The last actuarial valuation was performed as of December 31, 2002. The present value of accrued pension benefits was then extrapolated to December 31, 2003 using management's best estimates and assumptions.

The extrapolation as at December 31, 2003, was determined using the projected benefit method pro-rated on services and reflects management's best estimate assumptions and the expectation that the Plan will continue on an ongoing basis.

8. ACCRUED PENSION BENEFITS (continued)

The actuarial present value of accrued pension benefits as at December 31, 2003 and the principal components of changes in this value during the year, were as follows:

	(000's)
Extrapolated accrued actuarial liability as at December 31, 2002	$ 1,795,990
Service accrued	104,542
Benefits paid	(64,852)
Interest accrued on benefits	122,569
Impact of change in valuation assumption	66,523
Impact of other experience items	16,841
Extrapolated accrued actuarial liability as at December 31, 2003	$ 2,041,613

The assumptions used in determining the actuarial value of accrued pension benefits may change from year to year depending upon current and long-term market conditions. The following is a summary of the significant actuarial assumptions:

- Interest rate 6.75%
- Inflation rate 3.25%
- Salary projection 6% per year for 2003 to 2005, and 4.25% per year thereafter
- Remaining service life 11.4 years
- Mortality table GAM 1983

The actuarial value of assets as at December 31, 2003 is estimated to be $1,981,765,000. The method used to estimate the actuarial value of assets was the market value of assets for all asset classes except for Canadian equities. For Canadian equities, a 96 month trend line of the TSX 300 index was used.

9. COMPARATIVE FIGURES

Certain of the comparative figures have been reclassified to conform with the current year's presentation.

Saskatchewan Healthcare Employees' Pension Plan
Schedule 1 - Administrative Expenses
For the Year Ended December 31

	2003 (000's)	2002 (000's)
Advertising	$ 3	$ 3
Banking - wire fees	2	-
Equipment purchases and maintenance	15	4
Equipment rental	11	-
Insurance	41	20
Membership fees	2	1
Occupancy	25	35
Office expense/offsite storage	12	11
Pension registration fee	5	5
Postage and express	16	42
Printing	18	21
Purchased services	2	6
Salaries and benefits	673	532
Seminars	29	4
Software purchase	9	1
Subscriptions	1	1
Telephone	9	9
Travel - board SHEPP	15	1
Travel - committee	4	8
Travel - staff and staff training	19	23
	$ 911	$ 727

Saskatchewan Healthcare Employees' Pension Plan

Schedule 2 - Fund Management Fees

For the Year Ended December 31

	2003 (000's)	2002 (000's)
API Asset Performance Inc.	$ 45	$ 44
Barclays Global Investors Canada Ltd.	237	233
Bissett Investment Management	133	133
Franklin Templeton Investments	1,369	1,013
Greystone Managed Investment Inc.	384	381
J.L. Kaplan Associates, LLC	120	-
JP Morgan Fleming Asset Management	717	636
Manulife Financial	1	3
Montrusco Bolton	204	181
Phillips, Hager & North	624	612
Sun Life Financial	5	56
TD Quantitative Capital	91	103
	$ 3,930	$ 3,395

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